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RUSSIA'S ENERGY POLICY IN THE BALTIC REGION: A GEOECONOMIC APPROACH

S. Lachininsky*



This article analyses certain issues of implementation of Russian energy policy in the Baltic region from the geoeconomic perspective. The purpose of the study is to explain Russian energy policy in the region as dependent solely on the import capacity of its partners. Russian energy policy is viewed as one of the most important activities of the state and its business structures. As such it aims to achieve both general economic goals (generation of profit, market domination) and more specific geoeconomic tasks. At the same time, the policy follows the traditional rules of consumer/producer market game. Russian energy resources are delivered to an energy deficient region, where the demand and need for them is stable. The study is based on the author's geoeconomic methodology, which extensively uses geographical and general scientific methods. This work aims to develop a geoeconomic paradigm in the framework of social geography. It will be of interest to anyone who aims to analyse the true motives behind Russian current energy policy.

Key words: Russian energy policy, Baltic region, hydrocarbon resources, geoeconomics, geoeconomics of energy sources

The pipelines stretching across the territory of Russia help to connect unique mineral and raw material resources (including hydrocarbon) and power generating capacities with their end users, i.e. industrial centres and other consumers in the pivotal geoeconomic centre, the European Union (EU). Because of the volume of its market (with population nearing 150 million people and a GDP of about 5 trillion USD) and its geographical proximity, the Baltic region has always been a point of special interest for Russia. The energy streams between Russia and the Baltic region are studied by applied geoeconomics.

Geoeconomics, a research branch within the field of social geography, studies the formation of structural elements of global geoeconomic space [1; 2]. Such

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elements are integrally involved in the implementation of Russian energy policy in the Baltic region, and they include (but not limited to) the following entities: regional hydrocarbon and energy markets, global cities of the region, unique fields in the Russian Federation¹, transnational and multinational corporations (including *OAO Gazprom* and *Transneft*), companies within the production and service chains (*Gazpromexport* and *Gazpromenft*), largest international ports (Primorsk, Ust-Luga, etc.), transport infrastructure (a joint gas and oil distribution system), and so on. When looking through the geoeconomic lens on energy markets, one encounters the problems of regional energy supply development. And from this perspective, geoeconomics of energy sources becomes one of the priority study areas [3].

It seems that *Russian energy policy is one of the pivotal activities of the state and its business structures oriented towards achieving the goals of both general economic (ensuring profit and securing a strong standing in the market) and geoeconomic nature* (italics mine. — S. L.).

Geoeconomic approach to Russian energy policy in the Baltic region rests on the following keystones: 1) identification of the role of energy policy within Russian foreign policy; 2) identification of the vector of energy policy and its main elements in the region. Following these steps can help assess the results of implementation of Russian energy policy in the Baltic region at all levels of territorial governance.

Identification of the role of energy policy within Russia's foreign economic policy

It should be said about Russian energy policy in Europe in general and the Baltic region in particular that Russian energy resources are supplied to an energy deficient region, which shows stable demand. Table 1 demonstrates that the most energy dependent countries are Germany, Latvia, Lithuania, and Finland.

Table 1

Raw material and energy dependence breakdown for the Baltic region

Country	Total import (2010)	Raw materials, including fuel import (2010)	Import raw materials dependence coefficient	Import background raw materials dependence coefficient as compared to the EU	Energy dependence (2009)		
					total	oil	gas
Germany	502.93	55.71	0.11	0.73	61.6	95.2	87.9
Denmark	45.14	1.99	0.04	0.27	–18.8 (independent)	–55.2 (independent)	–91.7 (independent)

¹ The major gas fields have been heavily depleted. For example, the Urengoy field (operational since 1966) is depleted by 67%, Yamburg (1969) by 46%, Medvezhye (1967) by 78%. As to other fields, their output is still at the initial levels.

End of table 1

Country	Total import (2010)	Raw materials, including fuel import (2010)	Import raw materials dependence coefficient	Import background raw materials dependence coefficient as compared to the EU	Energy dependence (2009)		
					total	oil	gas
Lithuania	9.99	5.38	0.54	3.60	51.2	90.1	100.4
Latvia	6.71	0.70	0.10	0.67	58.8	99.4	114.1
Poland	95.06	11.56	0.12	0.80	31.7	98.0	67.7
Sweden	75.31	9.07	0.12	0.80	37.4	101.7	100.0
Finland	33.30	8.47	0.25	1.67	54.4	98.6	100.0
Estonia	7.38	0.66	0.09	0.60	21.2	64.3	100.0
Regional total	775.82	93.54	0.12	0.80	...	...	...
<i>As compared to the EU</i>	31.4 %	24.4 %	...	...	...	...	...
EU-27 total, for reference only	2468.83 billion euros	383.20 billion euros	0.15	1.00	53.9	83.5	64.2

Calculated according to [4; 5].

The data clearly shows that all the countries of the region (except for Denmark) exhibit a critical level of gas dependence ranging from 67.7 to 114.1, whereas their oil dependence varies from 64.3 to 101.7.

Apart from these energy dependence indices, we have also studied the import and raw material import metrics of the Baltic region. It is worth noting that, taken as a group, the Baltic Sea states demonstrate a lower import raw material dependence coefficient than the EU (0.11 and 0.15 respectively). At the same time, the import of Lithuania and Finland is more raw material dependent, with indices of 0.54 and 0.25 respectively. With Finland this can be explained by the country's strong dependence on Russian round wood; in case of Lithuania, however, the problem lies solely with energy resources.

Table 2 shows the indices of Russian energy import broken down for the Baltic States. One detail stands out, and it is a large gap between the countries concerned when it comes to volumes of import from the Russian Federation. Thus, with the EU total of 8 % and the Baltic regional total of 9 %, the indices of individual countries vary from 3 % (Denmark) to 88 % (Latvia).

Such dramatic difference in numbers is explained, first of all, by the economic and geographical proximity of the region's states to the Russian Federation, and by the long-established import corridors.

Let us now consider the role of energy policy in the foreign economic policy of Russia and identify the major direction of energy policy, as well as its key elements in the region.

Table 2

**Import dependence of the Baltic region states
on Russian energy supplies (2009)**

Country	Import from Russia, mln USD	Import from Russia to total import, %	Oil import from Russia, mln tons	Import from Russia to total import, %		Coal import from Russia, mln tons
				oil	gas	
Germany	25.10	5	34.6	32	38	9.54
Denmark	1.56	3	...	...	...	2.71
Lithuania	3.57	36	8.3	no data	146 (re-export)	0.20
Latvia	5.89	88	no data	no data	100	0.13
Poland	14.94	16	18.9	78	61	7.09
Sweden	3.59	5	7.2	49	...	0.42
Finland	12.70	38	9.6	95	100	4.69
Estonia	1.72	23	no data	no data	100	0.05
Regional total	69.07	9	78.6	48	45	24.83

Calculated according to [4—6].

In most countries of the world, energy policy is one of the key areas of the state's foreign economic policy. Take, for example, the US economic policy in the Middle East from the 1970s all the way to 2000s, or something more contemporary, such as the Chinese economic policy in Africa. One of the leading producers of energy, Russia carries out its foreign economic and energy policies in the interest of national businesses. Thus, among the seven priority areas of Russian foreign economic strategy, number four is “an increase in the role of Russia in ensuring global energy security and to ensure its strong position at the hydrocarbon market” [7]. The implementation of this priority requires the following mechanisms to be applied:

- expansion and diversification of hydrocarbon export to the European market;

- development of export of services relating to energy; increase in the share of highly processed products;

- investment in foreign energy transportation and distribution system, also on the basis of mutual exchange of assets.

The expansion and diversification of hydrocarbon export to the European market had an immediate effect on the Baltic region. In November 2011, natural gas was first delivered from Russia to Germany through the first line of the *Nord Stream* pipeline with a capacity of 25.7 billion m³. A year later, a second line was put into operation. Annually, both lines can deliver 55 billion m³ of gas to Europe; and they are designed to last for at least 50 more years [8; 9]. Moreover, after the last compressor station of the *Yamal—Europe* pipeline had been launched the pipeline reached its planned capacity of 33 billion m³ per year [10].

It should be stressed that the introduction of new gas routes has only one purpose — to diversify export deliveries, so the same volume of gas can be

transmitted via different routes. One fact clearly illustrates the current situation: the gas transit system in Ukraine operates only at 65—75 % of its capacity, while that of Belorussia is almost fully engaged (85—90 % of capacity) [11]. Table 3 shows that the new projects did not result in an increase in natural gas export from Russia in 2006—2012.

Table 3

Export of Russian gas into the Baltic region states, billion m³

Country	2006	2008	2011	2012
Germany	34.40	37.90	34.03	33.16
Finland	4.90	4.80	4.19	3.48
Poland	7.70	7.90	10.26	9.94
Estonia	0.60	0.60	0.67	0.64
Latvia	1.40	0.70	1.19	1.12
Lithuania	2.80	2.80	3.41	3.30
Denmark	—	—	—	0.33
Sweden	no data	no data	no data	no data
Regional total	51.80	54.70	53.75	51.97

Compiled according to [7; 11].

Similar processes take place within the oil industry. Russian oil export amounted to 242.2 mln t in 2011, which is 1.3 % less than in 2010. Diversification of major channels of oil export from Russia is also of significant interest here.

In 2000—2011, for a number of reasons detailed below, the channels of Russian oil export radically changed. Firstly, there was a 1.66 time increase in total oil export (from 127.5 to 212.3 mln t); secondly, we saw a significant increase in oil export via Russian seaports in the Baltics (up to 125.6 mln t) accompanied by a decrease in the volume of deliveries via the *Druzhba* pipeline by 14 %; finally, there was a dramatic (9.8 time) growth in transportation via new channels [13].

The role of new ports in the Baltics (Primorsk, Ust-Luga, Vysotsk) is strengthened through the construction of new pipelines, the first of which was the *Baltic Pipeline System-1* based at the port of Primorsk (in 2010 the volume of export oil transshipment amounted to 70 mln t). Since March 2012, oil export has been carried out through the *Baltic Pipeline System-2* with an export terminal at Ust-Luga (export oil transshipment reached 15 mln t in 2012; a number thought to increase up to 18 mln t in 2013).

Looking at the geography of Russian oil export, one will immediately notice that 93.3 % of all transactions happen via 3 European corridors: the northern (50.9 %), southern (22.5 %), and central (19.9 %) ones. For the Baltic region, the *northern corridor* is of special importance. The corridor starts in the Arctic zone of the Russian Federation (the ports of Arkhangelsk, Varnandei and partially Primorsk and Ust-Luga), and goes via the German sector of the *Druzhba* oil pipeline. The end buyers are Germany and other coun-

tries. The second — *central* — route follows the *Druzhba* pipeline. Its customers include Poland and the countries of the former Visegrád Group. Both land and maritime shipping options are possible for the countries of the Baltic region.

As to the *development of export of services relating to energy and an increase in the share of highly processed products*, one cannot but mention that the *Rosatom* government-owned corporation is constructing the Baltic Nuclear Power Plant in the Neman district of the Kaliningrad region in accordance with the decree of the Government of the RF No 1353-r of 25.09.2009 [14].

The expected electrical power output of the BNPP is 8.5 billion kWh per year (current consumption level is estimated to be 4 billion kWh per year) [15]. Power surplus can be exported to the countries of the Baltic region (primarily Germany, Poland, and Lithuania).

However, if the export scenario prevails, the geoeconomic significance of this project can become ambiguous. Some experts believe that ‘in the near future, the energy system of the Baltic countries will be integrated into the continental Europe’s energy system, ENTSO-E. The first steps in that direction have already been taken, namely, the projects *Estlink* (a set of HVDC submarine power cables between Estonia and Finland), *LitPol Link* (a planned electricity link between Lithuania and Poland), *SwedLit* (a planned submarine power cable between Lithuania and Sweden), and others. A simultaneous integration of the Baltics into ENTSO-E will entail their secession from the IPS/UPS, which will inevitably affect Kaliningrad’ [ibid]. The securing of energy bridges between the Baltics and its large European neighbours is conducted in the framework of several major projects: the Swedish-Polish bridge *SwePol* (operational since 2000) and the *Estlink-2* energy bridge between Finland and Estonia (under construction). In this case, geoeconomic risks increase exponentially, in particular, the risks of economic and geopolitical types [for further details, see 1]. Internationalisation, threats to external communications and monofunctionality are perceived to be the top three challenges here.

At the same time the export of electricity generated at a hi-tech NPP can contribute to the diversification of Russian energy export. It is worth noting that in 2011 only two countries of the Baltic region purchased electricity from Russia — namely, Finland (9.6 billion kWh or 42.2 % of total export) and Lithuania (5.5 billion kWh or 24.4 % of total electricity export) [16].

It is also important to understand that the Kaliningrad Baltic nuclear project is implemented in a competitive environment, against the background of the construction of the *Astravyets* NPP in Belarus, the design of the *Visaginas* NPP in Lithuania, as well as NPPs in Poland.

The third mechanism that can be applied to ensure Russian leadership at the energy market is *investment in foreign energy transportation and distribution system that can also be carried out on the basis of mutual exchange of assets*.

This seems to be of significant importance, especially with the implementation of the EU Third Energy Package (a regulation designed to split energy business according to principal activities). In Estonia, where *OAO*

Gazprom and its Latvian subsidiary *Itera Latvia* own 37.03 % and 9.99 % of shares of the gas distribution company *Eesti Gaasm*, the government tries to pressure the company into auctioning off its gas transmission facilities by 2015. *OAQ Gazprom* owns 37.1 % of shares of *AB Lietuvos Dujos* and 16 % of *Itera Latvija*. In Poland, *OAQ Gazprom* controls 48 % of shares of the *Europolgaz* company [11]. Virtual nationalisation of gas transmission assets (with minor variation) seems to be the shared chosen operational path for the governments of Lithuania, Estonia, Latvia and Poland.

The major vector of Russian energy policy and its key elements in the region

The major vector of Russian energy policy in the Baltic region, as well as in Europe in general, is determined by the geoeconomic standing of the end buyer's market. The uncontested leader in this tangle of relationships is Germany; a situation, one may add, with a strong echo of history, since Russia and Germany go a long way back in their economic partnership. Our calculations show that Germany accounts for 60 % of raw material import of the Baltic region. Germany alone accounts for 36 % of the total Russian import into the Baltic region states, 44 % of Russian oil import into the region, 28 % of Russian coal import into the region, and 61 % of Russia's total gas import. At the same time, Russian export accounts for only 5 % of German import. Therefore, the objective of other Baltic countries is not to curtail Russian export of energy resources, and it is definitely not to nationalize its assets, but rather to diversify the structure of import — and energy import in particular. What follows is that, for obvious reasons, Germany will remain the key reliable energy outlet for Russian companies.

The second line of the *Nord Stream* pipeline, launched in 2012, and the Baltic oil corridor stretching from Primorsk and Ust-Luga significantly augment this vector. The *Nord Stream* includes the following elements of Eurasian geoeconomic space: the Yuzhno-Russkoye field on the Yamal Peninsula, the port of Primorsk and the submarine gas pipeline section stretching to the city of Greifswald, from where gas is delivered to various regions of Europe. To the south of Germany — via the OPAL gas transmission system (470 km — 360 billion m³ per year); to Olbernhau and further westward — via the NEL system to Rehden, to then create a connection with the Dutch gas pipeline. It is worth noting that, according to the EU Third Energy Package, *OAQ Gazprom* cannot control more than 50 % of OPAL capacities. The major shareholders of the OPAL pipeline are *Wingas GmbH* (80 %) and *E. ON Ruhrgas AG* (20 %) — virtually a joint venture of *Gazprom* and *Wintershall GmbH*.

The completion from the Czech section of *Gazelle* (166 km) with a capacity of up to 30 billion m³ makes it possible to connect to the MEGAL pipeline with an access to eastern France, through which Russian gas is delivered to France. Thus, the national *Nord Stream* inlet and outlet connections are turned into geoeconomic trans-European corridors.

As for the oil export, one can mention the *Baltic Pipeline System-1* from Kharyaga to Primorsk and the *Baltic Pipeline System-2* from Noyabrsk to

Ust-Luga via Unecha (the Bryansk region). Both projects deliver oil from the Arctic zone of the Russian Federation to Europe and North American markets (with a capacity of 80 mln t per year) bypassing the ports of the Baltic Sea states and Ukraine.

The possible laying of energy cables from the Baltic NPP to Germany parallel to the *Nord Stream* will create a reliable energy bridge between Russia and Germany and set up a foundation for comprehensive economic partnership based on an energy union.

In conclusion, let us try to assess the results of Russian energy policy in the Baltic region at the upper, middle, and lower territorial levels within the context of implementing the top priority of foreign economic policy — an increase in Russia's role in ensuring global energy security and the improvement of its standing in the hydrocarbon market.

Firstly, Russia has succeeded in expanding and diversifying hydrocarbon supply to the EU, primarily to the German market, over a short period of time. However, no significant increase of either quality or market share took place. Moreover, an alternative gas route to European countries, including those of the Baltic region, has been constructed and launched. As Yuri Zverev emphasises, 'Russian energy policy in the Baltic region seeks to overcome the limitations imposed by the energy transport infrastructure developed in the Soviet times' [17].

Secondly, construction works continue at the Baltic NPP, and its launch will result in an increase in the share of highly processed products in the export structure. Yet the central issue of Russian energy policy in Europe and especially in the Baltic region lies in the limitations imposed on the expansion of Russian energy companies by the EU Third Energy Package adopted in 2009. Key provisions of the package suggest the division of vertically integrated energy companies and limitations to investment from third countries. The document calls for finalizing the construction of a single EU electricity and gas market [for more detail, see 18]. In this case, there emerges a serious problem of investment in the energy transmission and distribution networks and projects developed by the individual states in the region.

The Baltic region is a special interest area for different geopolitical and geoeconomic actors. Geoeconomics is based on the theoretical and methodological contributions of geopolitics. It is not a coincidence that the 'founding fathers' of geoeconomics, Carlo Jean and Paolo Savona, define it as 'economic geopolitics' [20]. At the same time, one should keep in mind that the economic and political objectives of a state often do not match. Russian closest neighbours — Estonia, Latvia and Poland — are vivid examples of this. Their economic interests often fall victim to the political ambitions of their elites.

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